

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, November 24, 1948.

PRESENT: Mr. McCabe, Chairman
 Mr. Eccles
 Mr. Szymczak
 Mr. Draper
 Mr. Evans
 Mr. Vardaman

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Morrill, Special Adviser
 Mr. Thurston, Assistant to the Board

Minutes of actions taken by the Board of Governors of the Federal Reserve System on November 23, 1948, were approved unanimously.

Memorandum dated November 19, 1948, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the temporary appointment of Chester A. Dozier, a laborer in that Division, be extended on a permanent basis, with no change in his present basic salary of \$2,020 per annum, effective November 28, 1948.

Approved unanimously.

Letter to Mr. Rounds, First Vice President of the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of November 10, 1948, requesting approval of a new scale of minimum and maximum salaries for the respective grades under the Job Classification and Salary Administration Plan at the Federal Reserve Bank of New York and the Buffalo Branch.

"The Board approves, effective November 1, 1948, the following minimum and maximum salaries for the respective grades at the Federal Reserve Bank of New York and the Buffalo Branch:

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<u>"Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
	<u>Head Office</u>	
1	\$1,560	\$2,100
2	1,800	2,400
3	1,980	2,700
4	2,160	2,940
5	2,400	3,240
6	2,640	3,600
7	2,880	3,900
8	3,240	4,400
9	3,600	4,900
10	4,000	5,400
11	4,400	6,000
12	4,900	6,600
13	5,500	7,400
14	6,000	8,100
15	6,800	9,200
16	7,500	10,200
	<u>Buffalo Branch</u>	
1	1,440	1,920
2	1,620	2,160
3	1,800	2,400
4	1,920	2,640
5	2,220	3,000
6	2,400	3,240
7	2,640	3,600
8	2,940	4,000
9	3,240	4,400
10	3,700	5,000
11	4,000	5,400
12	4,400	6,000
13	5,000	6,800
14	5,600	7,500
15	6,200	8,400
16	7,000	9,400

"The Plan of Job Evaluation and Salary Administration provides for a spread of 35 percent between minimum and maximum salaries for the respective grades rounded off to multiples of \$60 in the lower grades. In order to conform more nearly to this principle the Board has approved a maximum salary of \$2,100 for Grade I at the Head Office instead of \$2,160 as proposed by your directors.

"The Board approves the payment of salaries to the employees, other than officers, within the limits specified for the grades in which the positions of the respective employees are classified. It is assumed that all

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"employees whose salaries are below the minimum of their grades as a result of the structure increase will be brought within the appropriate range as soon as practicable and not later than January 1, 1949."

Approved unanimously.

Letter to Mr. Wiltse, Vice President of the Federal Reserve Bank of New York, reading as follows:

"In accordance with the request contained in your letter of November 18, 1948, the Board approves the appointment of Franklin F. Mittricker as an assistant examiner for the Federal Reserve Bank of New York. Please advise us of the date upon which the appointment is made effective and also as to the salary rate.

"The Board also approves the designation of Charles J. Obermayer as a special assistant examiner for the Federal Reserve Bank of New York."

Approved unanimously.

Memorandum dated November 19, 1948, from Mr. Vest, General Counsel, recommending that, in accordance with a letter to Mr. W. F. Lawson, Chairman, Committee on Delayed Return of Unpaid Items, Bank Management Commission of the American Bankers Association dated July 15, 1948, the Board at this time adopt the following amendments to Regulation J, Check Clearing and Collection, effective January 1, 1949:

"Effective January 1, 1949, Regulation J, 'Check Clearing and Collection', is amended in the following respects:

"1. Paragraph (2) of section 5 is amended by adding at the end of such paragraph the following sentence: A Federal Reserve bank, or any agent to which such checks are forwarded by a Federal Reserve bank, may present such checks pursuant to any special collection agreement not inconsistent with the terms of this regulation or may present them through a clearing house subject to the rules and practices thereof.

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"2. Section 5 is amended by inserting therein a new paragraph (4) reading as set forth below and by changing the designations of present paragraphs (4) to (8), inclusive, so that such paragraphs will be designated (5) to (9), inclusive:

(4) Any check which a Federal Reserve bank or an agent thereof presents to the drawee bank for payment or sends to the drawee bank for collection, and for which remittance or settlement is made by the drawee bank on the day on which it receives³ such check, may be returned for credit or refund at any time prior to midnight of the drawee's next business day following such day of receipt or prior to the time provided by applicable clearing house rule or special collection agreement, whichever is earlier, except that this paragraph shall not apply to checks presented over the counter.

³A check received by a drawee bank on a day other than its business day, or received on a business day after its regular business hours or during afternoon or evening periods when it has reopened (or remained open) for limited functions, shall be deemed to have been received on its next succeeding business day.

"3. Section 6 is amended to read as follows:

Each Federal Reserve Bank may also promulgate rules not inconsistent with the terms of the law or of this Regulation, governing the details of its operations in clearing and collecting checks and other cash items. Such rules shall be set forth by the Federal Reserve Bank in its letters of instruction to its member and nonmember clearing banks and shall be binding upon any member or nonmember clearing bank which sends any check or other cash item to such Federal Reserve Bank for the account of any other Federal Reserve Bank for collection."

Approved unanimously, together with the following statement for the press and a letter transmitting a copy of the amendments to the Federal Register. In taking these actions, it was understood

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that Mr. Lawson and the Presidents of all Federal Reserve Banks would be notified of them in letters under today's date:

"BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

"Statement for the Press

For release on November 26, 1948.

"Amendments to Regulation J Regarding
Delayed Return of Unpaid Items

"Several months ago, the American Bankers Association recommended that the Board of Governors of the Federal Reserve System amend its Regulation J, relating to the clearing and collection of checks by Federal Reserve Banks, in order to authorize a procedure for the conditional payment of cash items presented by Federal Reserve Banks subject to the right of a drawee bank to return unpaid items for credit or refund on the next business day after their receipt by the drawee. The recommendation was made in the light of the fact that in recent years many banks have adopted the practice of 'delayed posting' which involves unpaid items and that the practice has been recognized by the enactment of statutes in a number of States and by rules adopted by numerous clearing house associations.

"On April 16, 1948, the Board of Governors published in the Federal Register a preliminary notice of proposed amendments to its Regulation J to give effect to the procedure recommended by the American Bankers Association; and at that time a statement with respect to the proposed changes was sent by the Federal Reserve Banks to their member banks for their information.

"The Board has now adopted the amendments to Regulation J, to become effective January 1, 1949, in the form in which they were previously published in the Federal Register (except for a change in the footnote and one other minor change). These amendments are being published in the Federal Register on or about November 30, 1948. It is contemplated that the Federal Reserve Banks will amend their operating circulars or letters relating to the collection of cash items to conform to the amendments to the Regulation. In effect, the amendments to the Regulation and to the operating circulars or letters of the

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"Federal Reserve Banks authorize the Federal Reserve Banks to accept, as conditional, payment for checks and other cash items made on the day such items are received by a drawee bank and to permit the drawee bank to return items as unpaid, for credit or refund, at any time up to midnight of the drawee's next business day following receipt of and remittance for such items.

"It should be noted that adoption of these amendments does not mean that any bank is required to follow the practice of delaying the return of unpaid cash items; and any bank may continue to return unpaid cash items with its remittance on the day of receipt.

"It is also to be noted that the procedure provided for in these amendments for the return of unpaid items on the day after presentment and remittance applies only to checks and other items handled by the Reserve Banks as 'cash items' and does not apply to items handled by them as 'non-cash items' under the Board's Regulation G.

"In May 1948 the American Bankers Association transmitted to banks which are members of the Association a suggested form of collection agreement with depositors, for use by banks on deposit tickets, signature cards, and the like, in order that the banks may be afforded adequate protection with respect to the collection of items in accordance with such conditional payment procedure. The Association has also drafted a model statute authorizing a procedure of this kind and has informed the Board of Governors that it will send a copy of the proposed statute, together with an explanatory statement, to the State Bankers Association of each State, urging its adoption.

"The text of the amendments to Regulation J is attached."

Letter to Mr. Johns, Vice President and General Counsel of the Federal Reserve Bank of Kansas City, reading as follows:

"This is in reply to your letter of November 10, 1948, enclosing a copy of an advertisement which appeared in the Tulsa Daily World, Tulsa, Oklahoma, on October 27, 1948, by Pigsaw Davis Furniture Company of Tulsa. Our attention was directed to the advertised terms on an open stock bedroom suite consisting of a vanity and chest for \$48.98 each, a bed for \$34.98, and a bench for \$11.98, offered as a suite at \$144.92, which is the sum of the individual pieces, without reduction. The down payment

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"terms quoted were \$1.00 for each item or \$4.00 for the four piece suite, with the deferred balance payable at the rate of \$3.00 per week.

"With reference to the applicability of Regulation W to sales of the above character, you inquired as to the current status of the interpretation concerning 'Sets and Groups of Articles' published in the March 1947 Federal Reserve Bulletin at page 270 (F.R.L.S. # 8681). In the second paragraph of the Board's letter S-1044, dated October 8, 1948, reference is made to three interpretations published at page 270 of the March 1947 Federal Reserve Bulletin which are applicable under the new regulation. The last one of the three is identical in all respects with the interpretations to which you referred.

"As you suggest, instalment sales in accordance with the offering contained in the advertisement in question would not appear to be in violation of the regulation, especially in view of the last paragraph of the aforementioned interpretation of section 6(h) of the regulation. However, if the Registrant's records should disclose that sales of single pieces or different groups of the 'open stock' furniture are rarely made, then a question would arise as to whether the customers, regardless of the advertisement, may not have a free choice to buy the items separately or in different groups so that, in effect, the items would be sold at a combination price, rather than separate prices. In such event, there would not be compliance with the regulation unless the Registrant obtained a down payment based on the combination price."

Approved unanimously.

Letter to Mr. Frank Warner, Secretary, Iowa Bankers Association, 430 Liberty Building, Des Moines 9, Iowa, reading as follows:

"The Board of Governors appreciates very much the opportunity afforded by your letter of November 1 to comment on the letter received by you from one of the nonmember banks in Iowa with respect to Regulation W.

"It might be helpful to restate briefly the legislative background for the new regulation. As you know, the original Regulation W which was in effect during the war and until November 1, 1947, was issued under the authority of an Executive Order of the President

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"of the United States dated August 9, 1941. The authority for the regulation was terminated by Public Law 386, approved August 3, 1947. When the special session of Congress was called by the President in August of this year to consider what might be done to combat a condition of continuing inflation, the regulation on consumer credit was again proposed as one field in which some effective action might be taken. The question was considered at hearings before the Banking and Currency Committees of both the House and the Senate and there is attached a copy of the statement submitted by Governor Evans at that time. On August 16, Public Law 905 authorizing the Board of Governors to regulate consumer instalment credit was signed by the President.

"While not objecting to other provisions of the regulation, the bank does object to the provision of the new regulation requiring registration. In this connection, it should be mentioned that this requirement applies not only to member and nonmember banks, but to all individuals, partnerships, associations, and corporations, including merchants, loan companies, sales finance companies, etc., engaged in the business of extending or financing instalment credits subject to the regulation. Reference might also be made to the fact that it was clearly stated during the hearings on the legislation that the regulation would be reinstated in about the same form as when it was discontinued in November 1947, and since the earlier regulation contained a provision for registration it is apparent that Congress anticipated that this requirement would be in the regulation authorized by the new legislation as a necessary part of the machinery for effective administration. Failure to register is a violation of the regulation, and the violator would be amenable to the penalties stated in the regulation.

"The decision of the President and the Congress to select the Board of Governors as the agency to administer Regulation W was consistent with the Board's general responsibility in the field of national credit policy. These responsibilities are not always limited to measures affecting only member banks. For example, the provisions of the Securities Exchange Act of 1934 and Regulations T and U issued under that Act by the Board relate to credit in connection with listed stocks regardless of whether such credit is extended by banks, whether or not members of the Federal Reserve System, or by stock brokers.

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"If we can be of further help in this matter, please write to us again."

Approved unanimously.

Letter to Mr. S. F. D. Meffley, Recording & Statistical Corporation, 222 West Adams Street, Chicago 6, Illinois, reading as follows:

"Your letter of November 17, 1948, requests that the Board approve several changes that you propose to make in Official Automobile Guide, effective with the January 1, 1949 Price Edition.

"The Board has no objection to your proposed change of the word 'cash' to 'loan' in the column headings, though this does not constitute approval of these figures for the purpose of the regulation; as you know, the designation is limited to estimated average retail values. Also, the Board has no objection to your publishing valuations for overdrives or automatic transmissions.

"The Board would not at this time designate for the purposes of Regulation W the new Region B that you propose which includes a large area now covered in Region A. You propose to retain the present Region C unchanged and to reduce Region A to a relatively small area in the midwest. While we would consider designating your guides for your proposed Region A, along with your present designation for Region C, providing all of our requirements for the designation were satisfied, such a designation would, of course, leave your guides undesignated in a large part of the country.

"In general, it does not appear practicable to adapt the appraisal guide designations to more precise market differentials unless this is done through designation of guide books specifically designed for smaller areas than the present three Regions. If the designations are extended to cover greater areas than these three Regions, as you request for your new Region B area, there would appear to be a loss rather than a gain in the precision with which the appraisal estimates apply in individual market areas. The broader the area covered, the less accurately will the estimated prices reflect not only the differentials

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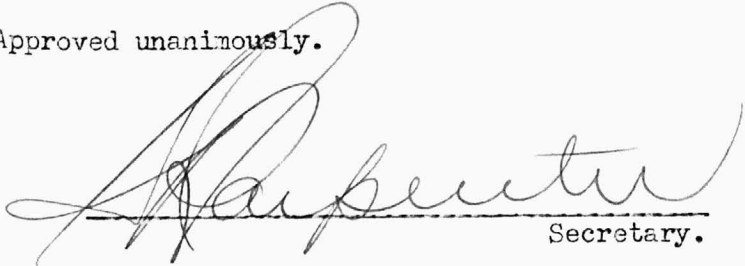
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"in transportation charges, but also all of the many local supply and demand factors which cause prices to change from time to time in one market or trading area compared with those in another area. Your proposed Region B would include, for example, such widely separated areas as the East Coast and the tier of western states from Montana southward, and it is not evident to us that used car prices in such diverse areas would show corresponding variations from one period to another.

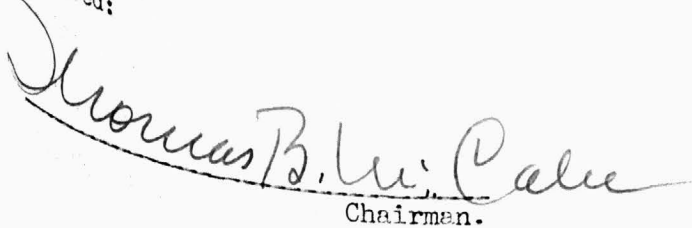
"In considering changes in the regions to be designated for the purposes of Regulation W, the Board cannot confine the problem to the case of one guide alone but must consider the question in relation to the general purposes of the appraisal guide provisions of the regulation and the way these provisions are applied through all of the designations.

"You understand, of course, that the Board's position in this matter applies only to the designation of the appraisal guides for the purposes of Regulation W, and does not involve any opinion as to whether the change in regions you propose would be more suitable for other purposes."

Approved unanimously.


Secretary.

Approved:


Chairman.